

An exercise in excise

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In Papua New Guinea, excise is payable on certain imported and locally manufactured goods. In PNG, excise charges form an important part of the revenue base, raising over K500 million in 2013.

So what is excise, and why is it imposed?

Excise tax is a charge imposed against the quantity or value of the particular good. Some countries, such as PNG, have a combination of both charging systems.

Excise is usually applied against only a limited class of goods or products.

One class of goods are those goods that are known, in economic terms, as 'price inelastic' – this means that if the price of the product goes up or down then there is limited change in the amount that the product is purchased. Finding ways of raising revenue in a way that limits the impact on an individual's or company's decisions is an important goal of the tax system generally. In PNG, as in many other countries, an example of such a good subject to excise is petrol.

Another type of goods usually subject to excise are those that create 'negative externalities' – in effect those goods the consumption of which have broader social, economic or health consequences. Tobacco (given the health consequences) and alcohol (given its health and broader social consequences) are two products that are commonly subject to excise for these reasons. In PNG, poker machines are also subject to excise for similar reasons.

A final type of good that is subject to excise are 'luxury' items. These are items that are generally bought by people on higher incomes and are a means of providing equity in the tax system – that is ensuring that those on higher incomes share a greater proportion of the revenue burden. It is on this basis that many developing countries, like PNG, impose excise on motor vehicles.

A number of submissions to the Review have argued that excise duties on cars should be removed or reduced, arguing that they should no longer be seen as a 'luxury item' for the rich. What do you think?

If you wish to have your say on the future of PNG's Tax system, please contact the Tax Review on info@taxreview.gov.pg, (675) 325 5977 or visit the website www.taxreview.gov.pg.